

Small and Medium Scale Agricultural Exporters Perception towards Export Barriers in Sri Lanka

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Abstract

Though agriculture is one of the dominating sectors in Sri Lanka its contribution to GDP is declining regularly and the industrial sector is grabbing the place day by day. Therefore, agriculture export is a key strategy in developing and promoting agriculture sector. But agricultural products exporters usually face numerous and increasing trading requirements and limitations on agricultural products. Therefore, most of the SMEs are reluctant to initiate agriculture exports. Generally (small and medium scale exporters) SMEs contribute to at least 85% of total enterprises and constitute more than 90% of all non-agricultural private enterprises. In this context, it is important to identify export barriers involved in export agriculture in the process of developing the sector. Structured questionnaire was used as data collection instrument and direct interviews, mail questionnaire and telephone interviews were conducted to collect primary data. One hundred and five small and medium scale agricultural firms were selected as the sample by simple random sampling technique. Most of the firms used to sell their products through intermediates rather than directly selling to end users. Some of SMEs were unaware on government assistance programs and they do not take the advantage of government assistance in implementing and planning strategies. According to the factor analysis, barriers to export agricultural commodities were identified as finance and certification barriers, competition, barriers for marketing, cost and regulations, political barriers, barriers to skill and export knowledge, information and tariff barriers and subsidy barriers. The findings of the study would be helpful to exporters, policy makers and all the stakeholders in future decision making, regarding agricultural exports.

Keywords: Agriculture, Exports, Barriers, Small and medium scale firms

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Introduction

Export of agricultural products is increasingly recognized as an important strategy which could contribute to agricultural development as well as economic development of the country. It is also a strategy to diversify the economic activities and it turns the flow of foreign exchange into the country (Gamage, 2003). Though agriculture export plays a key role in developing and promoting agriculture sector, most of the SMEs reluctant to initiate agriculture exports, because of export barriers. Generally small and medium scale exporters contribute to at least 85% of total enterprises and constitute more than 90% of all non-agricultural private enterprises. Agricultural product exporters usually face numerous and increasing trading requirements and limitations on agricultural products. These requirements are particularly challenging and dynamic (Hewaliyanage, 2001).

According to the Sri Lanka Customs (2016) and Central Bank of Sri Lanka (2014), agricultural exports accounted for more than 62% of Sri Lanka's total exports until the 1980s, but have been declining thereafter. In 2014 the share of agriculture exports declined into 22.8% and

other sectors have expanded their exports. Among them textile and Garments sector seems to be most crucial, because it has expanded steadily from 10% in 1980 to 41.3% in 2014.

Though there are negative aspects of agricultural exports, it is needed to identify the potential export opportunities that can be captured by most of the small and medium scale exporters (SMEs) in Sri Lanka, and to discover the barriers that most of the small and medium scale exporters (SMEs) are faced in exporting agricultural products, which will facilitate for future decision making.

Materials and methods

This study was aimed to identify the barriers with relevant to agriculture exports among SMEs in Sri Lanka. Therefore, 'survey strategy' was identified as the best research strategy to gather primary data. Due to lack of empirical research in this area a 'Descriptive-exploratory Investigation' was adopted as the most suitable research approach. All the SMEs in Sri Lanka were considered as the population of this study. According to the Department of Census and Statistics Key indicators of Industry Trade and

Services Sector Economic Census 2013/2014, distribution of SMEs was 81,531. The sample framework was considered as all the SMEs who engage with agribusinesses were selected as a subset of the population. The total number of agribusinesses was 5156. Among them 1688 was agricultural exporters and 3741 was agricultural non-exporters. Sample is defined as the 105 small and medium scale agribusiness firms officially registered in Sri Lanka. Among them, 83 were specialist export firms and 22 were agricultural non-exporters. Simple random sampling technique was used to select the sample for the research.

Both primary and secondary data were collected to explore the current barriers that can be involved with the small and medium-sized agricultural export firms (SMAEFs) in Sri Lanka. Primary data were gathered using a structured questionnaire and secondary data were collected through official statistics and publications from different institutes. Interviews were conducted as personal face-to-face interviews, mail questionnaire and telephone interview to gather data. Descriptive analysis, non-parametric test such as Kruskal Wallis Test, and Factor analysis were used as analytical tools to analyse data.

The Cronbach's Alpha was used for reliability measurement and it was vital to ensure the reliability of the statements to decide whether questions asked are suitable to measure the perceived barriers involved with agriculture exports in Sri Lanka.

Results and discussion

The total sample size was 105 and among them, 83 were SMAEFs and other 22 firms were agricultural non-exporters. Most of the studied subjects were companies (49.5%) and 28.6% were sole proprietorship and 21.9% were partnership in their business nature. The survey data highlighted that 32.4% businesses have 5-10 years' business experience and 24.8% have more than 20 years of experience. Majority of the firms had invested Rs. 5-14 Mn (31.4%) and 15.2% had invested over Rs. 30 Mn. 28.6% firms had invested less than Rs. 5 Mn. The rest of the firms, 24.8% had invested Rs. 15-30 Mn. The participating firms ranged according to the annual turnover and 29.5% of firms had Rs. 15-39 Mn, 12.4% of firms had 40-64Mn, 21.9% had 65-89 Mn, 8.4% had 90-115 Mn as annual turnover. 4.8% of firms had over Rs. 115 Mn as

annual turnover. 22.9% of firms are having less than Rs. 15 Mn annually.

Findings of the study revealed that majority (28.6%) had 10-25 employees and around 26.7% of the sample had 26-45 employees. Very few agriculture SMEs (8.6%) had granted more than 65 employment opportunities. 18.1% of firms were consisted with less than 10 employees and another 18.1% were consisted with 46-65 employees.

Within the sample of SMAEFs (sample size=83), 38.6% of the firms had export experience between 05-10 years, but only 16.9% had exported for more than 20 years. About 21.7% of the sample consisted of firms that were relatively new to the export business, with less than 5 years in export activities. 12% of firms were experienced 11-15 years export experience and 10.8% of firms had 16-20 years export experience. Majority of exporters export coconut products (36 Firms): 29 of the firms export spices, followed by tea (27), cut flowers and foliage (17), natural rubber (13), fruits (12), vegetables (8), and others (6). Under others category of firms who are designed their business with cereals, legumes and cashew is discussed. There were number of firms who dealt with several products rather than one product category.

Among the total sample size, 71 firms used to sell their products through wholesalers. 66 firms had adopted sales procedures as selling through distributors, 52 firms used to sell their product through retailers and very less number (6) of firms used to sell their products directly to the end users.

About 59% of the firms took the advantage while 41% did not take the advantage of the government assistance in planning and implementing export strategies. Among these 41% most of the firms were unaware on these existing government assistance programmes. Hatab and Hess (2013) has shown that 69% of survey respondents are not familiar with export assistance schemes introduced by government institutions and export expansion. Training services seem to be ineffective or unrecognized by exporters, as 59 per cent of the SMAEFs surveyed lacked familiarity in legal matters related to export procedures and regulations.

Though E-Commerce and online sales are now common feature to all aspects of businesses, most of the firms (25.7%) do not currently sell

their product online, but they are interested in doing so. About 22% of firms stated that they do not have a company website and another 21.9% of firms said that they have a company website where their product is for sale. Also 14.2% of firms have limited access to internet and it prevents them from online marketing. The rest of firms (16.2%) stated that they have a company website but are not interested in online sales.

Kruskal-Wallis test was used to check whether export barriers are affected on export decision. According to the Kruskal-Wallis test 25 barriers are associated with the export decision among SMAFs. Those barriers are poor management strategies for export activities (0.029), poor knowledge in exports (0.021), insufficient capital (0.001), unwillingness of banks to serve SMEs (0.001), poor international financing and payment methods (granting credits to customers) (0.001), limited information and difficult to access them (0.024), heavy paperwork and documentation procedures (export records) (0.000), difficult to find overseas buyers (0.002), certificate of origin/export permit (0.001), foreign currency exchange risks (0.001), obtaining standards & quality test certificates (0.000), customs procedures (0.007), Quarantine procedures/certificate (0.001), high trade tariffs and taxes barriers (0.000), high costs of transportation (0.009), excessive insurance costs (0.013), identifying foreign business opportunities (0.007), complexity of foreign distribution channels (0.015), adjusting export promotional activities (0.015), have to deal with more intermediates (0.001), keen competition in overseas markets (0.000), unfavorable government rules/regulations and unstable policies (0.011), strict foreign rules and regulations (0.042), political instability (0.005), lack of attractive export incentives and subsidy schemes (0.049) and the export decision. Significant levels of all these variables are less than 0.05 and there are significant differences. Therefore, those barriers are caused to increase the reluctance among SMAFs to initiate exports.

Factor analysis was done to reduce the variables (25 export barriers) and eight factors were identified. Those factors are labeled as finance and certification barriers, competition, marketing barriers, cost and regulations, political barriers, barriers to skill and export knowledge, information & tariff barriers and subsidy barriers.

Conclusion

Though there are large amount of ways to assist agriculture exporters, majority of SMAEFs do not aware on these assistance programmes and do not take the advantage of government assistance in implementing and planning strategies. Most of the firms used to sell their products through intermediates rather than directly selling to end users. The major barriers were identified as perceived obstacles and constraints to agricultural exports among small and medium scale agribusiness firms and they were barriers related to finance and certification, competition, marketing barriers, cost and regulations, political barriers, skill and export knowledge, information and tariff barriers and lack of subsidies. Most of the SMAEFs do not adopt e-commerce and online sales because of they have limited access to internet and it prevents them from online marketing.

These results provide an insight to the small and medium scale agribusinesses to decide on what strategies they should adopt in developing the sector. Further this study recommends promotion of agriculture exports in Sri Lanka as potential sector where foreign exchange can be earned. Further these results would be also helpful to exporters, policy makers and all the stakeholders to implement plans and strategies in future decision making regarding agricultural exports.

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